



May 6, 2004

Honorable Mayor and City Council:

This letter serves to transmit the Five-Year Capital Improvement Program (CIP) for your consideration. The City Council will review this document during a work session later this month. Beforehand, the Planning Commission will have reviewed the document for conformance with the General Plan.

In keeping with the tone of this being a challenging budget year, the draft document has been downsized to save in both reproduction and staff costs. However, as in previous years, an overview of program changes is offered in the project changes and modifications section beginning on page 6. This year, project descriptions and expenditure forms are only provided for new projects. While the layout of the budget document remains basically the same, it should be noted that this year, two new funds - Measure B Tax (Pedestrian and Bicycle), Fund 212 and Redevelopment Tax Allocation Bonds, Fund 454 - are included in the CIP. Fund 212 was added to better manage the pedestrian and bicycle component of the Measure B Funds, per Alameda County Transportation Improvement Authority (ACTIA) requirements. Since a number of Redevelopment Agency projects - including the City Hall Parking Structure Modification - will be processed in the near future, a section was added to the CIP to track this work.

Given the continuing current economic conditions and its related uncertainty, this year's CIP is again presented as a one-year budget. This is intended to allow Council the greatest flexibility in responding to future changes in the City's revenues and financial needs. The importance of this flexibility becomes especially apparent when considering capital projects that require the expenditure of unrestricted monies. Since the City's general fund is the major source of unrestricted monies, the downturn in the economy has severely limited our ability to transfer monies to the CIP and, as a result, very few new projects have been added that require unrestricted dollars. In addition, in order to help address operating budget shortfalls, certain annual transfers from the General Fund have been reduced from previous levels.

In spite of the necessary cost cutting measures resulting from the present economic situation, the five-year program does, nonetheless, continue the Council's commitment for a revised and expanded sidewalk rehabilitation program. The next five years include almost \$4.8 million for the sidewalk rehabilitation program. Additionally, over \$2.2 million will be expended on pedestrian and bicycle improvements, including the installation of new sidewalks near schools and other areas heavily traveled by pedestrians, plus another \$630,000 is included for wheelchair ramps to be installed at various locations throughout the City. These and other expenditures designed to benefit and encourage pedestrian and other non-vehicular activity in Hayward's neighborhoods are highlighted in the Livable Streets section of the CIP.

**DEPARTMENT OF PUBLIC WORKS
ENGINEERING & TRANSPORTATION DIVISION**

777 B STREET, HAYWARD, CA 94541-5007
TEL: 510/583-4730 • FAX: 510/583-3620 • TDD: 510/247-3340

The pavement rehabilitation program, while impacted by the elimination of funding from the Governor's Traffic Congestion Relief program, is still significant with almost \$18.4 million allocated for patching, slurry seal, pavement overlay, and pavement reconstruction. Significant to this effort is the more than \$8.5 million projected to be received for local transportation needs from Measure B.

One positive highlight in this year's program is the success by staff in obtaining an additional \$3.5 million in reimbursements from the State's grade separation program for the completed Harder Road Grade Separation project. This unexpected revenue provides the ability to fund a portion of the West "A" Street extension project between Hesperian Boulevard and Golf Course Road.

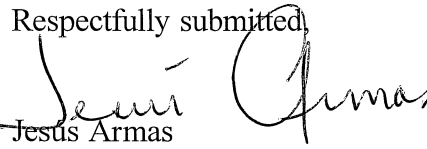
The Council's previous direction regarding improvements to the City's public infrastructure continues to be addressed through increased funding for major sewer and water system projects as identified in updates to the Sewer and Water System Master Plans, as well as in the Water and Sewer System Seismic Study. In order to finance these necessary repairs and improvements, the budget assumes planned transfers from the sewer and water operating funds to the capital funds, a \$33 million sewer revenue bond borrowing, and \$4.5 million in additional borrowing for the Water System.

Sewer System projects total more than \$62 million over the five-year period, including approximately \$41.5 million for the Water Pollution Control Facility Improvement - Phase I project. Because of the significance of this project, a memo detailing the project background is also provided (see binder pocket). Similarly, the Water System capital expenditures total over \$47 million with projects designed to improve water quality, provide flexibility to meet emergency needs, and allow the City to be better prepared for a major earthquake. Also included in the \$47 million total is an additional expenditure of \$14.3 million - funded by contributions from the San Francisco Public Utility Commission and the East Bay Municipal Utility District - for the Regional Water System Intertie Project that will interconnect EBMUD and SFPUC water systems for use in emergencies and/or major planned outages.

This year's program continues improvements to the Hayward Executive Airport based on the Airport Master Plan. The five-year program includes almost \$11.4 million in airport projects, and assumes new and expanded projects will be partially funded through FAA grants and a \$2 million low-interest loan from the State Airport Fund for new hangar development. New FAA procedures and reduced projections for future Airport Improvement Program funds resulted in extending the timeframe in order to achieve some master plan projects, but there will still be significant improvement in the Airport.

In conclusion, attached to this letter is a summary of the key assumptions (Attachment A) that were used in preparing the Five-Year CIP. The staff and I look forward to discussing projects and issues embodied in this capital plan.

Respectfully submitted,


Jesus Armas
City Manager

Attachment A - Assumptions

ATTACHMENT A

2004-2005 Five-Year Capital Improvement Program Working Assumptions

1. Interest Rates: Rate of return on existing fund balances - 2% per year.
Projected interest rate on City borrowing - based on current market information - 5.5% per year.
2. Construction Inflation Rate: 3% per year.
3. Monies received from Gas Tax have been escalated at about one percent per year through 2007-08, and transfers to the General Fund from the Gas Tax Fund to support eligible expenditures have been projected to increase at one percent per year.
4. Revenues received from Proposition 111 (Gas Tax) have also been escalated at one percent per year through 2007-08.
5. Transfers of Gas Tax Fund monies to the General Fund are assumed in the amount of \$1,264,000 in 2004-05, increasing to \$1,316,000 in 2008-09.
6. Based on projections provided by the Alameda County Transportation Authority, anticipated revenue from the Measure B program is assumed to be \$1,587,000 in 2004-05, \$1,634,000 in 2005-06 (an increase of 3 percent), and to increase at an estimated 4 percent per year to \$1,726,000 in 2008-09.
7. Monies received from the Measure B Non-Motorized Fund for pedestrian and bicycle improvements are assumed to be \$339,000 in 2004-05 and \$349,000 in 2005-06 (an increase of 3 percent), and to increase at an estimated 4 percent per year to \$392,000 in 2008-09.
8. Transfers of \$240,000 per year from the Route 238 Trust Fund to the Street System Improvements Fund in 2004-05 through 2008-09 are assumed to continue support for the New Sidewalk Program.
9. Reduced transfer of \$250,000 in 2004-05 and 2005-06, and continuation of the \$350,000 per year transfer from the General Fund to the Transportation System Improvement Fund in 2006-07 through 2008-09 is assumed, to provide funding for transportation projects.
10. Although not shown as a specific project since PG&E will do the work, use of an estimated \$9,600,000 in Rule 20A monies allotted to the City will allow for completion of the undergrounding of utilities on Mission Boulevard from Sycamore Avenue to Arrowhead Way. Based on Rule 20A allocations to date, it is projected that this will use our allocation through the year 2009.

11. Based on immediate budget needs and savings from the purchase of the streetlight system, it is assumed that a reduced transfer from the General Fund to the Street Lighting fund of \$20,000 will be made in 2004-05, and an annual transfer of \$320,000 from 2005-06 to 2008-09 will continue. The transfers will fund debt service through fiscal year 2008-09, and fund the continuing need to purchase new and replacement lights when required for safety and security.
12. Planned transfers from the sewer and water operating funds to the capital funds, \$33,000,000 in borrowing for the Sewer System and \$4,500,000 in borrowing for the Water System allows for critical capital projects identified in the Sewer and Water System Master Plan Updates, plus the Water and Sewer Seismic Study, to be accomplished.
13. Contributions totaling \$15,995,000 received from the SFPUC and EBMUD under a Joint Powers Agreement with the City are assumed in Fund 627 to allow construction of the Regional Water System Intertie Project.
14. Continued transfers from the Airport Operations Fund and from a low interest State Airport Fund Loan of \$2,000,000 provide funding for Airport Capital Improvement Projects identified in the Airport Master Plan.
15. The Program reflects expected cash flow in future program years and Council appropriations carried forward in the current year.